

Message Text

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ACTION EUR-25

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E.O. 11652: GDS

TAGS: ECON,OECD, TU

SUBJ: EDRC ANNUAL REVIEW OF TURKEY, JULY 16

REF: OECD PARIS 16940

1. EMBASSY HAD NOT YET RECEIVED OECD DOC EDR (74) 27, WHILE USAID MISSION HAS JUST RECEIVED DOCUMENT AND HAD TIME ONLY FOR QUICK PERUSAL. WITH THESE LIMITATIONS IN MIND, OUR COMMENTS ARE AS FOLLOWS:

2. IN GENERAL, WE CONSIDER THAT EDR(74) 27 DRAWS TOGETHER IN REASONABLE PERSPECTIVE THE MAIN ISSUES AND CONCERNS FACING THE TURKISH ECONOMY IN THE YEARS AHEAD. THE SUPPORTING STATISTICAL SERIES ARE ACCURATE. FOR FURTHER BACKGROUND, THE FIRST ESTIMATE OF THE 1974 GNP GROWTH RATE IN REAL TERMS IS 8.9 PERCENT, WITH INDUSTRY REACHING 9.5 PERCENT OVER 1973, AND AGRICULTURE 9.6 PERCENT. MANUFACTURING WITH ESTIMATED GROWTH OF 8.3 PERCENT WILL BE SUBSTANTIALLY BELOW THE PLANNED TARGET, HOWEVER, IN CONTRAST TO THE EXCELLENT PERFORMANCE IN THIS SECTOR DURING THE PAST FEW YEARS.

3. THE REPORT PUTS GREAT EMPHASIS ON A SURPLUS IN THE
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TURKISH 1974 BUDGET. THE U.S. DELEGATION MIGHT ASK WHETHER

SUCH A GOAL IS ATTAINABLE AND HOW IT WOULD BE REALIZED. IN CONNECTION WITH THE SUBSTITUTION OF CENTERL BANK CREDIT FLOWS FOR BUDGET TRANSFERS TO PUBLIC ENTERPRISES TO MEET OPERATING DEFICITS AND FOR MINIMUMPRICE SUPPORT POLICY, DISCUSSION MIGHT BE DIRECTED TO TWO POINTS: INFLATIONARY REPRECUSIONS AND SQUEEZE ON PRIVATE SECTOR CREDIT, IN THIS CONNECTION WE NOTE THAT THE RECENT IBRD LOAN TO THE STATE INVESTMENT BANK AND ALSO LOANS DIRECTLY TO PUBLIC ENTERPRISES MAY TAKE PRESSURE OFF BUDGET TRANSFERS TO THE PUBLIC ENTERPRISES FOR INVESTMENT FINANCING.

4. U.S. DELEGATE MAY AS APPROPRIATE COMMENT THAT PRIVATE FOREIGN INVESTMENT WITH RELATED TECHNOLOGY AND MANAGERIAL SKILLS CAN MAKE SIGNIFICANT CONTRIBUTION TO TURKISH ECONOMY IN INCREASING OUTPUT AND EMPLOYMENT AND RAISING PRODUCTIVITY. IT CAN ALSO HELP TO CLOSE THE GAP BETWEEN DOMESTIC SAVINGS AND THE REQUIRMENTS FOR INVESTMENT TO REACH OBJECTIVES OF TURKEY'S FIVE-YEAR DEVELOPMENT PLAN. THE RATHER BROAD STATEMENTS WITH REGARD TO THE GOVERNMENT'SPOLICY TOWARDS FOREIGN INVESTMENT, IN THE PROGRAM PRESENTED BY THE GOVERNMENT WHEN IT TOOK OFFICE EARLIER THIS YEAR, LEAVE POTENTIAL INVESTORS WITH CONSIDERABLE UNCERTAINTY. (FYI--FURTHER BACKGROUND ON THIS SITUATION IS CONTAINED IN ANKARA A-101, MAY 6, ECONOMIC TRENDS REPORT, PREVIOUSLY POUCHED U.S. MISSION OECD. END FYI.) HIGHER PLANNING COUNCIL UNDER CHAIRMANSHIP OF PRIME MINISTER IN JUNE BEGAN A REVIEW OF FOREIGN INVESTMENT POLICY. RAISING OF SUBJECT IN EDRC REVIEW COULD PROVIDE USEFUL FOCUS TO GOT CONSIDERATION. U.S. DELEGATION MAY ASK IF GOT SEES NEED TO CLARIFY POLICY OF NEW GOVERNMENT REGARDING FOREIGN INVESTMENT WITH VIEW OF ATTRACTING DESIRABLE AND NEEDED INVESTMENT.

5. THE PRESENT AND PROSPECTIVE MORE RAPID INCREASE IN PRICES IN TURKEY,AS COMPARED TO OTHER COUNTRIES, SUGGESTS THAT MANY TURKISH EXPORTS MAY ENCOUNTER INCREASING DIFFICULTY IN COMPETING PRICEWISE ON WORLD MARKETS IN THE YEAR AHEAD. (FK -- SOME LOCAL SOURCWS, INCLUDING A FEW GOVERNMENT OFFICIALS, BELIEVE THAT A DEVALUATION IS INEVITABLE WITHIN THE NEXT YEAR OR EVEN SOONER. END FYI.) U.S. DELEGATE MAY ASK VIEWS OF GOT DELEGATION ON THIS POSSIBILITY AND WHETHER CORRECTIVE ACTIONOR ADJUSTMENT IS ANTICIPATED.

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6. DEPUTY PRIME MINISTER LAST WEEK PUBLICLY STATED THIRD FIVE-YEAR PLAN WILL BE CHANGED IF NECESSARY. U.S. DELEGATE MAY WISH TO ASK WHAT CHANGES IN EMPHASIS ARE ENVISAGED.

7. NEITHER EMBASSY NOR USAID WILL BE ABLE TO SEND REPRESENTATIVE TO EDRC REVIEW. SPAIN

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